

MINUTES

**BOARD OF DIRECTORS
SCOTTSDALE PRESERVE AUTHORITY
Scottsdale Marriott Suites Old Town
7325 East Third Avenue
Scottsdale, Arizona
January 18, 2011**

Present: Larry Aungst, Chair
Fredda Bisman
Kenneth Harder
Jim Jenkins

Absent: William Schrader

Staff: Lee Guillory
Jeff Nichols
David Smith

Guests: Bill Davis, Piper Jaffray
Scott Ruby, Gust Rosenfeld

1. Call to Order and Roll Call.

Chair Aungst called the regular meeting of the Scottsdale Preserve Authority to order at 8:40 a.m. A formal roll call confirmed the members present as stated above. Ms. Guillory distributed the amended agenda.

2. Old Business:

a. Approval of Minutes of the August 19, 2010 Board meeting.

BOARD MEMBER BISMAN MOVED TO APPROVE THE AUGUST 19, 2010 SCOTTSDALE PRESERVE AUTHORITY MEETING MINUTES, BOARD MEMBER HARDER SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY BY A VOTE OF FOUR (4) TO ZERO (0). BOARD MEMBER SCHRADER WAS ABSENT.

3. New Business:

a. Review the Audited Financial Statements

Ms. Guillory stated that the outstanding long-term debt on the Preserve revenue bonds decreased by \$3.4 million. In October 2010 the City refunded \$36.7 million of Revenue Authority bonds. This saved Preserve taxes more than \$4 million over the life of the bonds, which can now be used for future land acquisitions.

When Fitch recalibrated its ratings, the rating on the Preserve bonds rose from AA to AA+. As part of the ratings review of the October 2010 bond refunding, Standard and Poor's raised its rating from AA to AA+. The Moody's rating is unchanged.

Board Member Harder noted a correction needed on page 10 of the annual report to use the date of 2010 instead of 2009. Ms. Guillory said the original authorization was \$500 million and the Preserve has issued \$40 million in bonds and that another correction is required.

Board Member Harder asked what the cash on the Preserve's balance sheet represents. Ms. Guillory explained that the City has a 0.35 percent sales tax for land acquisition in the Preserve. These funds are placed in the Preserve's account and used to service the bond debt. A portion of the funds may be spent on trailheads and other infrastructure. Board Member Harder inquired how this is reflected in the City's financials and Mr. Jeff Nichols, City Accounting Director, undertook to find out. He added that this year the City will have to comply with GASB 54 with regard to designation of fund balances.

b. Preserve Acquisition Update

Ms. Guillory provided the Preserve Acquisition update, noting that one State parcel was acquired at auction last fall. They spent \$45 million to acquire 2,000 acres. Half of the funds came from a matching grant from the State Parks Trust. The City is in the process of issuing general obligation Preserve bonds to pay its \$22.5 million share.

Mr. Smith interjected that this was a tremendous acquisition, as in a normal economy the price could have been close to \$50,000 per acre. No one else bid at the auction so Scottsdale was able to buy the land at the State's appraised value of \$20,000 per acre. In the current economy speculators are not buying up land for development. The matching grant makes this even more advantageous for the Preserve.

In response to a query by Chair Aungst, Ms. Guillory showed on the map the lands still to be acquired, most of which is State land. A total of \$40 million in matching funds is available this calendar year to any user in Maricopa County. Apparently, Phoenix is not planning to acquire any land this year so staff hopes that Scottsdale may be able to take advantage of the full amount. Ms. Guillory indicated on the map two parcels that may be auctioned this year. One would connect the southern and northern portions of the Preserve. Staff hopes to be able to acquire these lands for around \$20,000 per acre.

Board Member Harder asked whether the City could sell off other land such as Planet Ranch and use the proceeds to acquire land in the Preserve. A discussion ensued. Mr. Smith said the proceeds from any sale of Planet Ranch would go to the water enterprise. Ms. Guillory noted that the Planet Ranch situation is complicated and undertook to ask Marshall Brown for more details. Mr. Harder said this discussion begs the question of who is paying attention to Planet Ranch and who has authority to act. It would seem to be to the advantage of taxpayers to sell the land. He was curious, he said.

Mr. Scott Ruby of Gust Rosenfeld pointed out that if land is financed by tax exempt bonds, if it is sold or the use is changed, there are tax ramifications. Any outstanding bonds would have to be retired.

c. Discuss potential refunding bond issue

Ms. Guillory stated that as a result of the lower market rates, the City has the potential to refund some of the Preserve Authority Revenue bonds, similar to what was done in the fall. Staff is considering possibly refunding \$12.6 million of Preserve Revenue bonds. If market conditions hold, this could potentially save about \$1.2 million in debt service.

If they decide to go ahead, the refunding bonds would probably be issued in March or early April. Bond counsel are preparing draft documents which will be distributed to the Board. Another Board meeting would be required to formally approve proceeding, and then City Council would be asked to approve. Staff expect to distribute the documents in the last week of January to be followed by another Scottsdale Preserve Authority meeting in early February. Board members will be able to attend either in person or telephonically.

As part of the refunding process some City general obligation bonds also meet the thresholds, a portion of which is supported by the Preserve tax. This does not impact the Board directly. Staff is considering refunding \$43 million of general obligation bonds.

In reply to a question from Board Member Harder, Ms. Guillory said the Preserve Authority issued about \$97 million of revenue bonds and the general obligation bonds issued total about \$240 million over the life of the Preserve. No Preserve Authority bonds have been issued in the last five years. She undertook to research the value of the bonds issued in that time frame.

Mr. Bill Davis of Piper Jaffray told Chair Aungst that by law the refunding bonds cannot close before April. They would hope to close the sale early in April. The 2001 bond series is being considered for refunding and he said the final maturity on those bonds is fairly short.

Ms. Guillory interjected that Mr. Davis continues to also watch the MPC bonds also for potential refundings, however at the moment no savings are available for these bonds. She reiterated that the City is in the process of issuing another \$22.5 million in Preserve general obligation bonds. They might issue another \$40 million in Preserve general obligation bonds next year. Given the projected cash flows from the Preserve taxes, staff estimates that another \$80 million of bonding might be available to purchase additional acreage. Based on that, staff does not feel the City can acquire the entire remaining acres within the Preserve boundaries. Staff and the McDowell Sonoran Preserve Commission is looking at additional revenue sources that may include an additional tax, extension of one or both of the existing taxes, private funding, land swaps, and other ideas. In response to a comment by Board Member Harder, Ms. Guillory said the City has always said new bonds would only be issued if the Preserve tax would support them. The original tax of \$ 0.20 sunsets June 30, 2025 and the \$ 0.15 tax expires June 30, 2034.

Board Member Harder asked how an increase to sales tax revenue levels would affect bonding capacity. Ms. Guillory undertook to follow up on that calculation. Mr. Smith added that the assumption is that they will eventually return to the traditional level of sales tax generation. Ms. Guillory said the model assumes a flat growth rate in sales tax next year and two to two and a half percent growth over the next five years, followed by three percent growth in later years. Staff is using a conservative approach.

Board Member Harder remarked that he appreciates this conservative approach but believes that the City should be able to increase sales tax revenues, not just for the Preserve but the City as a whole. Ms. Guillory said the Economic Vitality department has just hired additional staff to promote Scottsdale.

Board Member Bisman said the SEC is proposing new rules that would require board members to register as financial advisors. She asked Mr. Ruby if he could tell them anything about this.

Mr. Ruby stated that the SEC has taken the position that appointed members of governance boards fall within the definition of financial advisors. If the rule passes, it is possible that all the board members would have to register and be regulated as financial advisors. Municipalities and the National Association of Bond Lawyers are submitting comments to the SEC. The protest is broad. He remarked that the SEC included appointed board members because they felt that these were less accountable to the public than elected board members. He assured the Board that he is working with Bruce Washburn in the City Attorney's Office to keep an eye on this situation.

Board Member Harder said there are clearly potential abuses of cronyism in small towns. He appreciates what the SEC is trying to do. Mr. Ruby said if the SEC wants to regulate poor conduct it could be done in a different way.

d. Board Member Rotation Vote.

Chair Aungst read the proposed rotation for 2011. He would be nominated as director. Board Member Schrader would become president, Board Member Jenkins would become vice president, Board Member Harder would become secretary, and Board Member Bisman would become treasurer.

THE BOARD MEMBER ROTATION AS PRESENTED WAS APPROVED BY A VOTE OF FOUR (4) TO ZERO (0). BOARD MEMBER SCHRADER WAS ABSENT.

4. Public Comment .

None noted.

5. Adjournment.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 9:11 a.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz

Kenneth Harder, Secretary

William Schrader, President